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Volume 25/Issue 3 Price \$12.95

Publications Mail Agreement Number 40792504



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STRATEGY IN THE DEFENCE MARKETPLACE

BY LINDA WOLSTENCROFT

Setting strategy for your firm can be difficult and complex. And risky – if the intended result doesn't happen.

Even in this era of ever-changing technology, seemingly constant disruption, and globalization with protectionism having a tug-of-war, Michael Porter's work from 1980 provides a sound basis for any thinking about strategy.

Strategy tools and frameworks abound, but each one leads back to the basics: the generic strategies of either total cost leadership (Walmart) or differentiation. Overlay this with market segmentation and decisions around market segments to focus on, and you have the foundation of a strategy.

Common differentiation strategies are product leadership (Lockheed Martin's F-35 for example), customer focus (Hilton) and lock-in (Microsoft).

It's necessary to pick one as the primary strategy for investment. This doesn't mean that if you're customer-focused you ignore your product or your cost – it simply means that the primary strategy you pick will prevail when making decisions about priorities, innovation and investment.

One additional approach to consider is the more recently-developed Blue Ocean strategic framework (2015, W. Chan Kim and Renée Mauborgne) which provides an approach for when a brand-new market space is being created. It, too, uses Porter's work in combining his generic strategies and once the newly-created market space can no longer be successfully defended, the Blue Ocean may become a Red Ocean (a known market space with competition) and Porter's work again applies.

COMPETITIVE ADVANTAGE

Any strategy must also, as a priority, consider the business' competitive advantage. (Unless you're fortunate enough to be in a space in which there are structural factors in the industry that enable

profitability for most, just by being in business, such as tobacco or pharmaceuticals.)

Otherwise, a competitive advantage, properly selected and implemented, can result in higher profits than that of the competition, satisfying stakeholders in the process.

Robert M. Grant & Judith Jordan, in their book *Foundations of Strategy, Second Edition*, discuss the emergence and the sustainment of competitive advantage. Emergence of competitive advantage can come from either internal sources, such as innovation, or external sources, such as market forces.

In the Defence industry, technology and innovation, whether created internally or by competition, has a huge impact. The ups and downs of demand, as Defence spending pendulates, also impacts, but this affects the entire industry and has nothing to do with competitive advantage. As an individual firm, it's typically technology and innovation that drive competitive advantage, whether created internally or externally.

Innovation can either be product innovation, such as the development of a new threat warning system, or process innovation, such as using innovative risk management practices in defence project management. Even firms in the defence services business can pursue innovation: process innovation.

When determining competitive advantage to develop, as part of a strategy development process, it's key to consider how the competitive advantage will be maintained. Grant and Jordan discuss four conditions which, if followed, will make it difficult for competitors to imitate.

The first factor is identification. One defence company hid its product development for years from its competition. Even within this company, information was closely held. When it came to bid on the largest global requirement ever for their product, the competitors were nowhere close when it came to product features, and the company won the bid.

The second factor is incentive. Once it's established that a competitive advantage exists, competitors will be incentivized to similarly invest to imitate that advantage. To counter this, one must

practice deterrence, by threatening imitators, such as threatening a price war in the airline industry when new contenders arise. And, one must practice pre-emption, such as acquiring the most of a limited resource. One company purchased test equipment and parts from the largest worldwide fleet when it was being retired, not because of need, but to pre-empt competition from challenging their global market supremacy in maintenance.

Diagnosis is the third factor. If the competition can't figure out all the factors that synergize to create the competitive advantage, how can they imitate it? For example, who can diagnose the totality of what makes Amazon so competitive, amongst its information systems, its innovative organization, its untouchable leadership, its strength in distribution? Costco and Walmart both follow the low-cost approach but the complexity, secrecy and continuous innovation of Amazon make imitation difficult.

A CLEAR EASY TO COMMUNICATE STRATEGY

The fourth factor is resource acquisition. Resources that are immobile and difficult to copy, such as a unique piece of test equipment, provide competitive advantage.

After strategy is developed, the work begins. It has been said that once the CEO feels as if she/he has communicated the strategy so extensively that there is no question that it is understood, it is likely that she/he is only beginning.

Best practices are first to make the strategy easy to communicate and understand, by using simple, clear and compelling language, and to describe the strategy on a single page. *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* provides a full description on how to make a one-page strategy. Then communicate, discuss and clarify. Repeat, repeat, repeat.

Observing how decisions are made, and if they're aligned with strategy, and what is most talked about, are indicators on how well strategy is working in a firm.

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